



WILLIAM T FUJIOKA  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

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June 19, 2009

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### **CONTRACT EXTENSIONS/REDUCTIONS (ITEM NO. 38, AGENDA OF JUNE 23, 2009)**

On June 16, 2009, your Board adopted Supervisor Ridley-Thomas' motion instructing this Office to work with County departments to identify current contracts for which the affected contractors may agree to reduce contract costs in exchange for contract extensions without competitive bidding. Your Board expressed a desire to review the criteria and parameters for this effort before instructions were provided to departments or letters were sent to contractors.

Attached is a draft memorandum which would be sent to all department heads, including a model letter to send to contractors and a format for reporting back to this Office information on those contracts they propose to extend under this effort. The memorandum to department heads also includes the criteria for determining appropriate contracts to consider, as well as a timeline.

Please let me know if you have any questions, or your staff may contact Martin Zimmerman at 213.974.1326 or [mzimmerman@ceo.lacounty.gov](mailto:mzimmerman@ceo.lacounty.gov).

WTF:ES  
MKZ:pg

Attachment

c: Executive Officer, Board of Supervisors  
County Counsel  
Director of Internal Services

2009-06 - 06-19-09 Contract Extension/Reductions (Item No. 38, Agenda of June 23, 2009)

*"To Enrich Lives Through Effective And Caring Service"*

***Please Conserve Paper – This Document and Copies are Two-Sided  
Intra-County Correspondence Sent Electronically Only***

**DRAFT**

June 18, 2009

To: All Department Heads

From: William T Fujioka  
Chief Executive Officer

### **CONTRACT EXTENSIONS/REDUCTIONS**

On June 16, 2009, the Board of Supervisors, on motion of Supervisor Ridley-Thomas, directed this Office, working with the Internal Services Department, County Counsel, Auditor-Controller, and other departments as needed, to develop the parameters for a contract cost savings initiative which can be implemented over the next 60 days. Specifically, the Board directed this Office to provide all departments with a "model" letter to send to departmental contractors by early July requesting that contractors reduce contract costs effective in Fiscal Year 2009-10 in return for contract extensions. The Board also:

- Authorized any contract extensions done under this initiative to be done without competitive bidding;
- Directed this Office to include any resulting reductions in Supplemental Changes for the 2009-10 County budget; and
- Instructed this Office to report back by August 7, 2009 regarding progress on this initiative.

Attached is a model letter for your use in complying with this directive (Attachment I). Attachment II is a format for reporting back to this Office those contracts which will be extended on a reduced cost basis. This applies to both service contracts and commodity agreements.

### **Criteria for Determining Contracts Covered by This Effort**

- This exercise pertains to current contracts which were planned to be competitively rebid upon expiration, but for which a competitive solicitation process is not already underway. It is not limited to contracts expiring in the next year. However, cost reductions would need to be implemented for 2009-10 and extend throughout the extended period.
- Living Wage rates may not be reduced as part of this effort.
- For contracts with remaining option years, you may seek to negotiate a cost reduction for an extension beyond the last option year, **or** you may seek to negotiate

a cost reduction in return for executing an option year. In either case, savings would need to be effective for 2009-10. Your analysis will need to balance the relative merits of immediate cost savings versus locking in a certain cost for several years when a competitive process might produce lower costs.

- You should also consider proposing a greater share of County revenue on concession agreements in return for extensions.
- Exclude:
  - Any contracts for which you reasonably determine that a more favorable cost can be obtained via a competitive process;
  - Contracts where your department has identified contractor performance issues with the current contractor;
  - Contracts where you are uncertain if the services will be needed for the extended term; and
  - Contracts, particularly for service providers, which have already been reduced as part of the 2008-09 or 2009-10 County budgets.
- Prioritize affected contracts on the basis of potential net County cost (NCC) savings. For example, a contract funded 100 percent with NCC would normally take priority over a contract which is 75 percent subvented. However, the **size** of the contract must also be considered: a reduction in a large contract that is only 50 percent NCC funded might generate more savings than a smaller contract that is 100 percent NCC funded.

Additional instructions and the timeline for this effort are as follows:

**Immediately:**

- Assign a team to handle this special project.
- Quickly analyze which contracts should be part of this exercise based on the criteria above.
- Issue the letters to affected contractors immediately upon the conclusion of this analysis.

**Late June to Early July 2009:**

As noted in the model letter, contractors are to be invited to make the first offer on specific reduction percentages for both one-year and two-year extensions. The letter to contractors must reflect a deadline that allows time for negotiation and identification of savings. You are encouraged to discuss status of this effort with your CEO budget analyst, as it proceeds. Questions can be directed to your CEO budget analyst or Martin Zimmerman at 213.974.1326 or [mzimmerman@ceo.lacounty.gov](mailto:mzimmerman@ceo.lacounty.gov).

**By July 24, 2009:**

Report back to this Office using the attached format those contracts you are proposing be extended and the projected savings (or increased revenue) under this initiative. Direct your responses to your **CEO budget analyst**, with a copy to **James Hazlett** at [jhazlett@ceo.lacounty.gov](mailto:jhazlett@ceo.lacounty.gov). This Office will review your proposed contract extension(s)/reduction(s), and determine if they will be included in Supplemental Changes.

**August 2009**

This Office will include projected savings or increased revenue resulting from recommended contract extensions/reductions consistent with recommendations for Supplemental Changes to the 2009-10 County budget (currently targeted for late September 2009).

Departments will work with County Counsel and contractors on contract extension language. Actual contract extensions will be forwarded for Board approval on a flow basis to allow sufficient time for Board and public review. Please note that, given the different nature of commodity agreements and the fact that the Purchasing Agent has the authority to extend those agreements, we will work with the Purchasing Agent to devise an appropriate format for estimating savings and reporting to the Board.

The dates above should be considered "**not to exceed deadlines**," and you are strongly encouraged to undertake this effort as quickly as possible and submit your results in advance of deadlines. Thank you in advance for your immediate attention to this effort.

WTF:ES

MKZ:pg

Attachments

c: Each Supervisor

**ATTACHMENT I**

**MODEL LETTER TO CONTRACTORS REGARDING EXTENSIONS/REDUCTIONS**

Date

Contractor Executive's Name  
Business Name  
Street Address  
City, State Zip Code

**CONTRACT EXTENSION/REDUCTION**

Dear [contractor executive's name]:

The County of Los Angeles is facing significant budget challenges in the coming fiscal years. We are pursuing a host of options to enable the County to continue providing its most critical services during these difficult times. As part of this effort, on June 16, 2009, the County Board of Supervisors instructed the County's Chief Executive Officer (CEO) to work with County departments to investigate the possibility of extending current contracts if the contractors would agree to provide a significant cost reduction to the County effective in Fiscal Year 2009-10. *[We are also examining increased County revenue from concession agreements as part of this effort.]*

Your current contract(s) with the Department of [department name], [name of contract(s)], will expire on [date]. We are hereby offering your firm a one- or two-year extension of this contract if you agree to offer the County a cost reduction *[or increase in the County's share of revenue (concession contracts)]* as referenced above.

We must report back to the CEO on those contracts which we recommend be extended under this program by July 24, 2009. Therefore, please respond to [department contact name] of this Department by [date] at [department contact telephone number and e-mail address], indicating the percentage contract cost reduction *[or revenue increase]* you would offer for both a one-year and a two-year contract extension. Questions can also be directed to Mr./Ms. [department contact name]. If the CEO approves your proposed reduction, we will prepare a contract extension for approval by the County Board of Supervisors. Please be aware that the County will not consider reductions to the County's Living Wage rates as part of this effort.

Thank you for your prompt attention to this important matter. We look forward to hearing from you soon.

Sincerely,

Department Head Name  
Title

## CONTRACT COST REDUCTION/EXTENSION PROJECT

Department Name:

Department Contact Name:

Department Contact Number/e-mail address:

CONTRACT/CONTRACTOR NAME	CONTRACT SERVICE DESCRIPTION	TOTAL CONTRACT AMOUNT AND NET COUNTY COST	CURRENT CONTRACT TERMINATION DATE	PROPOSED CONTRACT EXTENSION PERCENTAGE AND SAVINGS/REVENUE
				<u>1 year extension: X%</u> • 2009-10 Savings/Rev.: \$___ (NCC portion: \$___) • 2010-11 Savings/Rev.: \$___ (NCC portion: \$___) <u>2 year extension: X%</u> • 2009-10 Savings/Rev.: \$___ (NCC portion: \$___) • 2010-11 Savings/Rev.: \$___ (NCC portion: \$___)